

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AGRE-00 DOE-15 SOE-02 INT-05 AID-05

CIAE-00 COME-00 EB-08 FRB-03 INR-10 NSAE-00

ICA-11 TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-07 CEA-01 L-03 H-01

DODE-00 PA-01 PC-01 OES-07 PM-05 /131 W

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R 021210Z MAY 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 5164

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: ECON, RP

SUBJECT: PHILIPPINE ECONOMIC POLICY-MAKING PARAMETERS

1. THE EMBASSY HAS PREPARED AN AIRGRAM WHICH DRAWS TOGETHER SOME OF THE PRINCIPAL FEATURES OF THE PRESENT PHILIPPINE ECONOMIC SITUATION, AND ATTEMPTS TO ASSESS THE IMPACT OF THOSE FEATURES ON PHILIPPINE ECONOMIC POLICY-MAKING, PARTICULARLY AS THIS RELATES TO THE UNITED STATES. FOLLOWING IS A SUMMARY OF THE AIRGRAM.

2. THE PHILIPPINE ECONOMY IS UNDERDEVELOPED. ADVANCED ENOUGH TO ENJOY THE STATUS OF "LOW INCOME LDC WITH IMMEDIATE POTENTIAL FOR GROWTH," IT NEVERTHELESS FACES URGENT PROBLEMS. FOREMOST IS RAPID POPULATION GROWTH RATE,
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ESTIMATED AT 2.7 PER CENT ANNUALLY. A RELATED PROBLEM IS NEED TO CREATE 500,000 NEW JOBS ANNUALLY JUST TO KEEP UNEMPLOYMENT AT ITS PRESENT LEVEL. LARGE PORTIONS OF THE LABOR FORCE ARE UNSKILLED AND CURRENTLY UNEMPLOYED OR UNDEREMPLOYED. UNEMPLOYMENT, WHILE UNDETERMINED, CERTAINLY EXCEEDS 10 PER CENT. THE IMPORTANCE OF THIS TWO-HEADED PROBLEM OVER THE NEXT 10 TO 20 YEARS, AND THE DIFFI-

CULTY IN SOLVING IT, CANNOT BE OVERSTRESSED.

3. THE PHILIPPINES ARE BETTER ENDOWED WITH MINERAL AND AGRICULTURAL RESOURCES THAN MANY OTHER LDCS. THE DEVELOPMENT OF MODEST COMMERCIAL OIL DEPOSITS IS UNDERWAY. WHILE PHYSICAL RESOURCES ARE BETTER THAN IN OTHER COUNTRIES WHICH HAVE INDUSTRIALIZED, E.G. KOREA AND TAIWAN, THEY ARE NOT ALONE SUFFICIENT TO BRING INDUSTRIALIZATION.

4. HUMAN RESOURCES ARE ADEQUATE. HOWEVER, A MAJORITY OF RURAL FILIPINOS IS FUNCTIONALLY ILLITERATE, AND EDUCATION APPEARS TO BE RECEIVING LESS EMPHASIS THAN PREVIOUSLY. THE COUNTRY IS LOSING PROFESSIONALS AND TECHNICIANS, AND MANY SKILLS NEEDED FOR INDUSTRIALIZATION AND INFRASTRUCTURE DEVELOPMENT ARE IN SHORT SUPPLY.

5. THE CONCENTRATION OF RESOURCES AND TALENT IN MANILA DISTORTS ECONOMIC PRIORITIES. STRIKING ECONOMIC DUALISMS PERSIST BETWEEN VIGOROUS DEVELOPED MANILA AND THE UNDEREMPLOYED MALNOURISHED COUNTRYSIDE WHERE THE MAJORITY OF FILIPINOS LIVE. TRANSPORTATION AND COMMUNICATIONS DIFFICULTIES IN THIS ISLAND COUNTRY EXACERBATE THE PROBLEM. DRAWING PRIVATE INVESTMENT TO RURAL AND REGIONAL VENTURES WILL BE ONE KEY TO FUTURE DEVELOPMENT.

6. CULTURAL FACTORS CONTRIBUTE TO A RELATIVELY LOW LEVEL OF PRODUCTIVITY AND THE TRADITIONAL LOW RISK POSTURE OF LIMITED OFFICIAL USE

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THE FILIPINO ENTREPRENEUR. LOCAL ATTITUDES THAT TEND TO THWART A DRIVE TOWARDS MATERIAL GROWTH ARE FATALISM, DEPENDENCE ON EXTENDED FAMILY TIES, CLASSISM AND INHERITED PRIVILEGE, AND EXCESSIVE RELIANCE ON PERSONAL RELATIONS IN ALL ENDEAVORS. CORRUPTION, PARTICULARLY IN THE FORM OF HIGH LEVEL PAYOFFS, EXISTS BUT DOES NOT APPEAR SIGNIFICANTLY TO INHIBIT ECONOMIC ACTIVITY.

7. ON BALANCE, BUSINESSMEN ARE COMFORTABLE WITH THE PRESENT AUTHORITARIAN REGIME, AND THERE IS GENERAL AGREEMENT THAT THE ECONOMY SHOWS PROMISE IN SPITE OF THESE PROBLEMS.

8. AS FOR PERFORMANCE, REAL PER CAPITA GROWTH HAS RECENTLY BEEN OVER THREE PER CENT ANNUALLY, WHICH IS ABOVE THE HISTORICAL RATE. RICE SELF-SUFFICIENCY HAS BEEN REACHED. SHARING OF GROWTH IS ANOTHER MATTER. PRESENT WEALTH AND INCOME DISTRIBUTION IS POOR, AND IS IMPROVING SLOWLY IF AT ALL. THERE IS EVIDENCE THAT IN THE PAST FEW YEARS, REAL INCOMES HAVE INCREASED SLIGHTLY IN THE RURAL AREAS, AND PROBABLY NOT AT ALL IN THE URBAN AREAS. URBAN AND LANDLESS RURAL WORKERS MAY BE JUST HOLDING THEIR OWN, UPPERCLASS BUSINESSMEN ARE DOING WELL, AND MIDDLE-CLASS

SALARIED WORKERS ARE SUFFERING AN EROSION IN WELFARE LEVELS. FILIPINOS APPEAR TO BE UNPERTURBED BY INCOME AND WEALTH DISPARITIES, AND LIMITS OF PATIENCE FOR THE BASIC "TRICKLE-DOWN" STRATEGY ARE UNKNOWN.

9. INVESTMENT HAS BEEN SHIFTING RAPIDLY TO THE PUBLIC SECTOR, NOTABLY IN THE POWER, IRRIGATION, AND TRANSPORT SECTORS, IN PART TO MAKE UP FOR PAST NEGLECT. FOREIGN INVESTMENT IS DIMINISHING, BUT CONTINUES TO BE IMPORTANT AS A VEHICLE FOR TECHNOLOGY AND MANAGEMENT TRANSFER AND FOR ACCESS TO MARKETS. IT IS WELCOME, BUT ON INCREASINGLY SELECTIVE TERMS. IN GENERAL, ECONOMIC STATISM IS INCREASING. WHETHER THIS IS BENEFICIAL OR HARMFUL IS

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DEBATABLE, BUT THE PROCESS SEEMS IRREVERSIBLE.

10. THE EXTERNAL SECTOR HAS BEEN CHARACTERIZED BY HIGH CURRENT ACCOUNT DEFICITS, HIGH LEVELS OF OFFICIAL DEVELOPMENT ASSISTANCE AND COMMERCIAL BORROWING, AND MOUNTING DEBT. DEBT MANAGEMENT IS ABLE, BUT REQUIRES EXTREMELY GOOD EXPORT PERFORMANCE IN THE COMING FEW YEARS.

11. THE MUSLIM INSURGENCY IN THE SOUTH, AND TO A MUCH LESSER EXTENT THE TURMOIL CAUSED BY ACTIVITIES OF THE NEW PEOPLES ARMY, CAUSE SOME DISTORTION IN APPLICATION OF ECONOMIC RESOURCES, AND CONSTRAIN DEVELOPMENT IN SOME POTENTIALLY PRODUCTIVE AREAS WHERE SECURITY IS POOR.

12. THE U.S. NO LONGER DOMINATES THE PHILIPPINE ECONOMY
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AS IT ONCE DID, BUT IS STILL THE MOST IMPORTANT SOURCE OF FOREIGN INVESTMENT (47 PER CENT OF THE TOTAL IN 1976), COMMERCIAL LOANS, AND EXTERNAL ASSISTANCE (THROUGH BILATERAL AND IFI LENDING), AND IS THE MOST IMPORTANT CUSTOMER FOR PHILIPPINE EXPORTS (35 PER CENT IN 1977). THOUGH THE U.S. ROLE IN ALL OF THESE AREAS WILL CONTINUE TO DIMINISH IN RELATION TO OTHER COUNTRIES, THE U.S. WILL RETAIN A POSITION OF HIGH VISIBILITY.

13. THE IMPORTANCE OF U.S. TRADE WILL REMAIN SUCH THAT FILIPINOS WILL BE EXTREMELY SENSITIVE TO U.S. TRADE POLICY AN EQUIVALENT ATTENTIVENESS ON OUR PART IS DIFFICULT TO MAINTAIN IN VIEW OF THE RELATIVE UNIMPORTANCE OF THE PHILIPPINES TO THE U.S. ECONOMY, BUT WE IGNORE PHILIPPINE TRADE INTERESTS AT PERIL OF DAMAGING OUR OVERALL RELATIONSHIP. NEITHER THE USG NOR THE GOP HAVE ANY OVERRIDING INTEREST IN TRYING TO INFLUENCE THE PACE OF INVESTMENT BETWEEN THE TWO COUNTRIES.

14. THE U.S. WILL BE CONTRIBUTING ABOUT 11 PER CENT OF ALL EXTERNAL AID IN THE COMING FIVE YEARS THROUGH THE BILATERAL ASSISTANCE PROGRAM. THE CURRENT HIGH LEVEL OF GRANT ELEMENT IS ATTRACTIVE TO THE GOP, AND EMPHASIS ON BASIC HUMAN NEEDS SERVES ITS OVERALL DEVELOPMENT PRIORITIES. BUT IT IS UNLIKELY THAT AN APPRECIABLE INCREASE IN BILATERAL AID LEVELS COULD BE EFFECTIVELY UTILIZED IF IT WERE OFFERED WITHIN THE PRESENT FRAMEWORK AND WITHOUT ADDITIONAL TECHNICAL STAFF. THE GOP WOULD WISH TO MAXIMIZE ITS FLEXIBILITY IN USE OF ANY INCREMENTS TO PRESENT AID LEVELS.

15. THE IBRD AND ADB WILL BE PROVIDING APPROXIMATELY THREE-FOURTHS OF OFFICIAL DEVELOPMENT ASSISTANCE IN COM-
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ING YEARS. IFI LENDING HAS LEAPED UPWARD SINCE MARTIAL LAW, AND HAS MADE A NUMBER OF IMPORTANT INFRASTRUCTURE

PROJECTS POSSIBLE. U.S. ATTITUDES TOWARD LENDING BY THOSE AGENCIES ARE LOOKED ON WITH INTEREST, THOUGH THERE IS NO EVIDENCE THAT GOP OFFICIALS THINK LOANS ARE JEOPARDIZED BY OUR HUMAN RIGHTS CONCERN.

16. U.S. BASES IN THE PHILIPPINES HAVE A DIRECT ECONOMIC IMPORTANCE, EMPLOYING SOME 40,000 FILIPINOS AND PUMPING SOME 180 MILLION DOLLARS INTO THE ECONOMY. TERMINATION OF THE BASES WOULD CAUSE SERIOUS ADJUSTMENT PROBLEMS FOR LOCALITIES NEAR THE BASES. EFFECTS ON THE NATIONAL ECONOMY WOULD BE LIMITED. THE BASES DO INFLUENCE THE PSYCHOLOGICAL ATMOSPHERE SURROUNDING INVESTMENT, CREDIT, AND AID DECISIONS, AND THE PRESENT CONSERVATIVE GOVERNMENT MAY FIND THIS THE STRONGEST ECONOMIC ARGUMENT FOR KEEPING THE STATUS QUO.

17. AS WE DRAW FURTHER AWAY FROM THE PERIOD OF THE "SPECIAL RELATIONSHIP", THE END OF WHICH WAS MARKED SYMBOLICALLY IN THE ECONOMIC AREA BY THE EXPIRATION OF LAUREL-LANGLEY IN 1974, GOP POLICY-MAKERS DO IN FACT REFLECT WIDER INTERESTS AND GAIN IN SOPHISTICATION. BUT THE FACTS OF ECONOMIC AND POLITICAL RELATIONSHIP REMAIN -- THE U.S. WILL CONTINUE TO BE THE SINGLE MOST IMPORTANT COUNTRY TO THE PHILIPPINES. STULL

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